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SECTION 1 (SOVIET)

1. USSR. Cost of production in Soviet Light Industry: The Chief Finance Administration of the Ministry of Light Industry stated in Pravda on 25 August that a reduction of 1 percent in production costs would save the government 1 billion 220 million rubles (presumably per year). It was claimed that such a reduction would result in a saving of 300 million rubles in Moscow Oblast alone. (R, Moscow, Desp 147, 28 Aug 51)

Comment: This data indicates that production costs in light industry amount to about 122 billion rubles, of which production Moscow Oblast accounts for 30 billion. Although presently unable to evaluate this information, the embassy observes that Moscow Oblast thus appears to account for about one-fourth of the total output of light industry.

2. International fur auction held in Leningrad: The 22nd International Fur Auction was held in Leningrad from 23 to 29 July and was attended by buyers from all over the world except the Satellite countries. The furs offered for sale represented about \$8,000,000 out of a total USSR annual production of about \$40,000,000. Actual sales amounted to some \$6,000,000 compared with \$7,000,000 in 1950 and \$6,000,000 in 1949. (R, Moscow, Desp 115, 16 Aug 51)

Comments: The auction is conducted by the organization of the sale of furs (Soyuzpushnina). Proceedings are in the Russian language and interpreters are provided for those unfamiliar with the language. Although sales are announced in rubles, payment this year was exclusively in dollars or Swiss francs, while in former years, pounds or French francs were also accepted. The annual Leningrad fur auction, formerly conducted in English, has long been an assured source of "hard currency" for the Soviet Union.

3. Rumors that USSR will sell out East German regime are a plant:  
25X1C [REDACTED] has confirmed that the rumors of Soviet willingness to sell out the East German regime in return for German neutrality were a deliberate Communist plant.

Also, contrary to rumors, the Communist Party leaders in East Germany are in a confident mood after having deliberately deceived conservative party leaders into thinking that free elections might really be held. (S, Berlin Desp 535, 4 Oct 51)

Comment: This information reinforces the view that the intent of East German leaders is to stir up discontent in West Germany, not to

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achieve unity. While some concessions may be made regarding elections in an attempt to embarrass Bonn, it is unlikely that the USSR will permit free political activity in the Soviet Zone of Germany or international supervision of any elections.

- 25X1C 4. Civilian personnel of Soviet Occupation Army in Germany dismissed: [REDACTED] General Chuikov has ordered the immediate dismissal of the entire German auxiliary staff of the Soviet Occupation Army in Germany. For security reasons, shoemakers, tailors, technicians, and kitchen help will be replaced with women from the USSR who have recently arrived in the Soviet Zone. [REDACTED] 25X1A

Comment: The dismissal of some German personnel has been reported previously (see OCI Daily Digest, 14 Sep 51), but never to the extent indicated here. Although it is possible that the recent tightening of security measures could have culminated in a mass dismissal, it is more likely that the above report is exaggerated.

5. INTERNATIONAL COMMUNISM. Peace Conference to be held in India: The Indian News Chronicle reports that an All India Cultural Conference and Peace Festival will be held in November to which the All India Peace Council has invited "men of literature and music from China." (S, Joint Weeka, Karachi, 20 Sep 51, U, New Delhi 1098, 24 Sep 51)
6. CZECHOSLOVAKIA. Possibility of a deal to release Oatis discussed by Czechoslovak press: In reporting Ambassador Prochazka's 25 September press conference in the US, the leading Czechoslovak daily Rude Pravo pointed out that (1) "it is not the Ambassador's business to seek terms for Oatis' release, but the business of another party," (2) "it was not proper to speak about terms because this was the subject for negotiations," but that (3) "no negotiations are possible in the atmosphere intentionally created in the US against Czechoslovakia."

The article also quoted the Ambassador's comment that "reduction in economic pressure might assist in clearing the atmosphere." The article concluded that "Czechoslovakia would not give in to any pressure, be it in the Oatis affair or any other case." The US Embassy in Prague considers it significant that the possibility of a deal was discussed in the Czechoslovak press. (R, Prague 273, 2 Oct 51; C, Prague 274, 2 Oct 51)

Comment: The Czechoslovak press and official spokesmen have continually emphasized that Czechoslovakia will not yield to US pressure to release Oatis. The US Embassy in Prague, the Belgian Minister in

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Prague and Ambassador Prochazka have all expressed the opinion that a calmer atmosphere is necessary before negotiations for Oatis' release can be profitably discussed.

7. HUNGARY. Rumanian and Chinese messages on Hungary's Army Day omit references to Soviet Union: Congratulatory telegrams received by Defense Minister Farkas from military leaders in the Satellites on the occasion of the Hungarian Army Day 29 September, were unanimous in their praise of the USSR, the Soviet Army and Stalin, except those received from Rumania and China. The messages from Rumanian General Bodnaras and Chinese General Chu Teh omitted all references to the Soviet Army. (R, Budapest 207, 4 Oct 51)

Comment: General Bodnaras made up for his negligence by extolling Stalin and the Soviet Union in a speech on Rumanian Army Day 2 October. General Chu Teh, on the other hand, in the only speech on China's National Day, 1 October, failed to refer to the USSR or to Stalin. However, such omissions have been frequent on similar occasions without discernibly affecting Sino-Soviet relations.

8. YUGOSLAVIA. Soviet officials accused of directing spy ring: Twelve Yugoslavs and two White Russians accused of espionage and sabotage on behalf of the Soviet Union are currently on trial in Belgrade. The defendants, who are engineers, technicians and laborers, include the former President of the Serbian Branch of the Metal Workers' Union. The group is accused of sabotaging, under the direction of Soviet MVD and Embassy officials in Yugoslavia, various Yugoslav works projects. (U, Belgrade 420, 4 Oct 51)

Comment: A similar trial of twelve White Russians was held in Belgrade in early August. All of those accused in that case had been under arrest since 1949, and it appears that the present defendants have been under arrest at least a year. These and other recent trials of alleged Cominform agents are apparently part of a widespread campaign to end "administrative" imprisonments and to grant trials to all accused. Public trials of the Assistant Ministers of Finance and Agriculture and others recently arrested on charges of Cominformism have not been held.

9. US urges Yugoslav Government to hasten signature of arms aid agreement: Ambassador Allen in Belgrade has been instructed to inform the Yugoslav Government that delay in concluding the bilateral military aid agreement will impede deliveries of US military equipment since certain steps cannot be taken until agreement is signed or until a

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Military Aid Advisory Group is functioning at Belgrade. The US has already initiated certain activities to provide Yugoslav military aid which will be thrown off balance seriously if the bilateral agreement and arrangements thereunder are not resolved promptly. If the Yugoslav Government requests that final action be delayed until General Collins arrives in mid-October, it is to be informed that the US does not consider that the treaty requires Collins' personal attention and that he regards it as a subject for political negotiations. (R, Outgoing to Belgrade 361, 5 Oct 51)

Comment: The two aspects of the agreement to which the Yugoslav Government has objected are the proposed size of the US military group to supervise the arms aid program and the manner in which the supervision might be carried out. The US insists that the military staff must initially total at least 30 but has assured the Yugoslav Government that the supervision will be coordinated with Yugoslav military staffs.

10. IBRD loan negotiations nearing completion: A Yugoslav foreign trade official has informed a French official in Belgrade that Yugoslav negotiations for a loan from the International Bank for Reconstruction and Development are now being finalized in Washington. The first installment will be made available immediately subject to several conditions, including an overall debt ceiling during the next twenty years of \$3,700,000. US economic officials in Belgrade point out this would appear to indicate that the IBRD loan to Yugoslavia will be considerably less than the \$200,000,000 contemplated and may adversely affect the planned approaches to fourth countries to postpone their collection of Yugoslav debts. (S, Belgrade TOECA 160, 1 Oct 51)

Comment: In accordance with the US-UK-France economic aid program for Yugoslavia, the three powers have agreed (1) to meet Yugoslavia's economic needs through January 1952 which they estimate will approximate \$125,000,000, (2) to share this burden among themselves and to obtain the assistance, if possible, of fourth countries, and (3) to mesh the short-term aid program with a long term program under consideration by the IBRD. If Yugoslavia fails to obtain at least a substantial portion of \$200,000,000 contemplated, the Western problem of shoring up the Yugoslav economy will be greatly increased and fourth countries may not be willing to participate.

11. Deportations to Bulgaria continue: Refugees from Yugoslavia arriving in Trieste report that 30 White Russian families in Belgrade were arrested recently by the secret police and then expelled over the Bulgarian border. [REDACTED] indicate that as a result of

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this incident a certain degree of panic is evident among the White Russian population there. The US political advisor in Trieste reports that of the 538 refugees arriving in Trieste during September only twelve were White Russians, as compared with 25 in August and 48 in July. (S, Trieste 370, 5 Oct 51)

Comment: The expulsion of undesirable persons from Yugoslavia into Cominform countries was stopped a year ago after which an increased flow of refugees into Trieste was noted. Apparently recent US representations to decrease the number of improperly licensed refugees sent to Trieste have prompted the Yugoslav authorities to resume deportations to the Cominform countries.

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SECTION 2 (EASTERN)

1. IRAN. New Governor General appointed for Azerbaijan: The Iranian government announced on 4 October the appointment of General Zakhrai Shahbakti as Governor General of the northwestern province of Azerbaijan. (U Tehran 1279, 4 Oct 51)

Comment: The removal on 19 September of General Shahbakti's predecessor, the anti-Communist Dr. Iqbal, led to fears that a new appointee might be less capable and less efficient in governing this chronically troublesome area bordering on the Soviet Union. Shahbakti, however, held the post of Commander-in-Chief of the armed forces in Azerbaijan in 1949 and was acting civil governor of the province in 1950. He appears to be respected by the people of Azerbaijan and during his term of office had strong popular support. He is considered not unfriendly to the US.

2. INDONESIA. Representative to Tokyo says cooperation with Japan would be profitable to Indonesia: Ambassador Sudjono, chief of the Indonesian delegation to Tokyo but currently in Djakarta, stated in a press interview that he believes Japan to be almost completely dependent upon other countries for raw materials and incapable of becoming a military threat. He said that for these reasons it is possible to place credence in Japan's good faith in establishing friendly relations with Indonesia. Sudjono feels that trade relations with Japan would be most profitable to Indonesia. (U Djakarta 525, 4 Oct 51)

Comment: Sudjono was a delegate to the San Francisco conference and, with other members of the delegation, is now in Indonesia to help the government swing political and popular sentiment in favor of ratification of the Japanese peace treaty. His remarks to the press, although including no mention of the treaty, were undoubtedly directed toward its favorable consideration.

3. BURMA/INDIA. No agenda adopted for Nu-Nehru meeting: According to a high official of the Indian Foreign Ministry, no agenda has been adopted for consideration during the forthcoming visit to India of the Burmese Prime Minister. The Indian official assumed, however, that there would be an exchange of ideas regarding the Japanese peace treaty and Chinese Nationalist troops in northern Burma. When queried whether security might be discussed, he replied that it was unlikely since India had neither men nor materiel to risk in Burma, which was "so woefully weak." (S New Delhi 1252, 5 Oct 51)

Comment: India's inability and/or unwillingness to aid materially the Burmese Government in its struggle against Communism is almost certainly known to the Chinese Communists, and consequently tends to make Burma an increasingly attractive area for Communist machinations.

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4. INDONESIA. Oil industry is one of SOBSI's main targets: One of the main organizational targets of SOBSI, Communist-dominated labor federation, is the Indonesian oil industry. [REDACTED]

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[REDACTED] Communist elements plan to cut down oil production through strikes and other disturbances, gain complete domination over the oil workers, and strenuously advocate nationalization of the oil industry. [REDACTED]

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Comment: A congress of Indonesian oil workers held in Djakarta from 20 to 27 July resulted in the formation of a federation of oil workers--PERBUM--which voted immediately to affiliate with SOBSI. Although non-Communist elements withdrew from the new organization, it is estimated that SOBSI has gained control of at least half of the oil workers in Indonesia.

There have been no strikes or unusual disturbances, however, in the oil industry since the formation of the SOBSI federation.

5. INDOCHINA. US Legation sees long French struggle against Viet Minh: The US Charge in Saigon notes that most French officers and foreign attaches in Indochina do not agree with General de Lattre's recent estimate that he might be able to defeat the Viet Minh within two years. He quotes the British Army Attache as estimating that a Viet Minh defeat is not possible in the foreseeable future. The US Charge further asserts that a deterioration of Viet Minh morale cannot be assumed and that, in any case, there is no present indication that their military strength is declining. (S Saigon 763, 4 Oct 51)

Comment: During the past ten months Viet Minh military strength in relation to that of the French has decreased. There are clear indications of deteriorating morale among the civilian population in Viet Minh areas. Military morale has probably been similarly affected. France's present military commitment in Indochina is straining its resources severely, and any conspicuous decline in Viet Minh strength probably would result in political pressure in France for the reduction of this commitment. Such a reduction would again shift the balance in favor of the Viet Minh.

6. Viet Minh leadership alleged to be half Chinese: A Chinese source in Saigon has informed US Charge Gullion that approximately half of the higher Viet Minh staff leadership is now composed of Chinese Communist officers with heavy admixture in the quartermaster, medical, and other service corps. On the other hand, the source believes that Chinese seldom provide field leadership.

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The same informant states that the assignment of some 50 Chinese political advisers has aroused the emotions of the "hypernationalistic" Viet Minh, and that the tendency of these advisers to avoid the active fronts and spend all their time at "headquarters" in Caobang has occasioned Sino-Viet Minh friction. (C Saigon 777, 5 Oct 51)

Comment: Reports of the participation of Chinese Communist personnel in the Viet Minh have been received with increasing frequency for more than a year and a half. Chinese advisers numbering, according to the French, between 5,000 and 10,000 have been assigned to Viet Minh units down to company level, but no Chinese soldier or adviser has ever been identified, dead or alive.

7. French Air Force aids in beating off Viet Minh: Enemy attacks on the outer defenses of the post of Nghia Lo in western Tonkin have been beaten off. The airstrip at Nghia Lo, which the French are now confident of holding, is still in use and French aircraft have been very active. Viet Minh losses are estimated at 1,000 killed, 2,000 wounded. (S Hanoi 216, 5 Oct 51)

Comment: The French appear to have put up a better defense of Nghia Lo than they themselves anticipated in view of the fact that they were apparently willing two weeks ago to write off this and other posts in western Tonkin whose loss "would not affect the basic situation." It is believed that the capture of Nghia Lo was attempted by the Viet Minh as a morale-booster, as well as a source of rice and opium.

- 25X1C 8. CHINA. Military transport in South China increases: Chinese Communist military transportation in Fukien province has increased since last August, [REDACTED]. The army recently requisitioned 50 civilian motor vehicles and 340 boats for moving military supplies in south Fukien. More supplies of food, medical goods, arms and ammunition are arriving in south Fukien than the quantities normally used by the garrisons there. [REDACTED]

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Comment: The Fukien coast is a base for projected operations against Formosa and Nationalist-held off-shore islands. However, no significant increase in Communist troop strength in the area has been noted recently, and there are no confirmed reports of a recent logistic build-up.

9. Peiping denounces "abuse of workers by cadres": The Peiping People's Daily (the Chinese equivalent of Pravda) has editorially denounced the "abuse of workers by cadres" in Chahar Province. The editorial points out that some cadres—i.e., Communist Party and government

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functionaries--still "harbor reactionary thinking...and (an) erroneous attitude toward the working people." (R FBID flimsy, 4 Oct 51)

Comment: This recurrent problem illustrates the dilemma of the "workers"--regarded in theory as the backbone of the "revolution," in practice to be broken to the purposes of the regime as rapidly as possible. Although the theory reasserts itself periodically, Chinese workers can be expected to become as completely vulnerable to the arbitrary will of the Party as have the Soviet workers.

10. Peiping regime reported on verge of bankruptcy: Nationalist news dispatches allege that natural disasters are playing havoc with the Chinese Red economy and that the Communist government is on the verge of bankruptcy. Floods, famines, locusts and epidemics are reported. Because of the decline in overseas remittances, the regime is in urgent need of foreign exchange. The Korean military adventure has brought a government deficit totaling more than half of the total budget. (U Reuters Taipei, 4 Oct 51)

Comment: The Korean war has added to the economic problems of the Communists. Since June 1950 the Chinese Communists have found it increasingly difficult to import necessary industrial supplies such as cotton and petroleum from the West, have had to order the temporary closing of factories and have severely strained the government budget by the sharp increase in military expenses. Nevertheless, the picture presented by the Nationalist press is overdrawn. Localized famines, floods and other disasters are a traditional feature of the Chinese scene and are not more serious today than they were in 1949 and 1950. Shortages of industrial supplies formerly imported from the West continue, but the Communists point to their increased trade with the Orbit countries as a "serious blow" to the Western export controls. Insofar as government finances are concerned, Peiping has so far been fairly successful in containing the inflationary pressures resulting from deficit financing. The weight of evidence is that, despite the current stresses to the Chinese economy, financial insolvency and collapse of the country's economic structure do not constitute immediate threats to the authority of the Peiping regime.

11. Communists may try to sell Liberty ship: The Hai Hsuan, a Liberty ship claimed by both the Nationalists and Communists and detained in Singapore since 1950 by the British when its crew defected from the Nationalists to the Communists, may be offered by the Communists for sale. Inquiries regarding the purchase of the vessel reportedly have been made by an Italian firm, London shipbrokers, and the Hong Kong shipping firm of Wallem and Company. (S Singapore 392, 1 Oct 51)

Comment: The US holds a mortgage interest on this vessel, and has requested the British to detain it at Singapore.

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The projected sale of the vessel to a third party may have been suggested as a method for facilitating clearance of the vessel from Singapore. Such a sale could be merely a paper transaction which would not affect Communist possession of the vessel. Wallem and Company, for example, would act as registered owner of the vessel, but the Chinese Communists would retain beneficial ownership.

12. KOREA. Chinese Communist deserter reports observing Soviets in North Korea-Manchuria this summer and fall: A Chinese Communist deserter, with the rank of Lt. Col., reports observing in Manchuria 3,000 troops "believed Soviets and dressed in CCF uniforms mounting trains destined for Korea" in June, 1951. In late August, 1951, he claims to have observed in Pyongyang "one Russian AA regiment moving south" with more than "200 pieces of AAA (unknown caliber) drawn by trucks . . . ." The prisoner further reported that a Chinese Communist company-grade political officer had informed him that an "unknown number of Polish troops had arrived in Korea."

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He is described as "extremely cooperative, sincere ... with a vast store of information. ..." He is considered by his interrogator as "a reliable source of information."

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Comment: This is the first high-grade source who has reported the presence of organized Soviet units in Korea. It is currently accepted that a "considerable" number of Soviets are performing a variety of functions in North Korea, probably including the serving of anti-aircraft guns. The prisoner's information concerning "Polish troops" is hearsay and cannot be confirmed.

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13. Communists pursue accusations of Japanese troops in UN forces: A 5 October Peiping broadcast in English relates the details of the capture and interrogation of "Yasui Tatsubumi", an alleged Japanese "volunteer" fighting with the ROK 1st Division on the western front. The Communists claim that their captive, an unemployed tailor from the Osaka area, was recruited by US authorities in September 1950, together with over 1,000 other Japanese. It is further alleged that the prisoner was from the "third batch" and that two previous groups of 1,000 each had preceded him into Korea. (R FBID Ticker Peiping, 5 Oct 51)

Comment: It appears very likely that the Communists have captured a South Korean who was trained in Japan with either the US 3rd or the 7th Division during the summer and fall of 1950. While this office has no direct knowledge of this, an additional possibility exists that Koreans

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residing in Japan (who would possess a Japanese name) were also recruited for this force.

14. Communist armies on the Korean front appear well-supplied: The US Far East Command observes that "the determined defense, the expenditure of artillery and mortar ammunition at a relatively high rate and the physical appearance of prisoners of war testify to adequate, although not abundant, food (and ammunition) supply." Winter clothing is reported as having been partially issued to Chinese Communist forces, and North Korean prisoners report such issues are expected "in the near future." FECOM also notes that although the disease rate will rise with the coming of winter, the improved supply situation should keep the enemy non-battle casualty rate below that of last winter. In a final comment, it is observed that "the estimated enemy morale and combat efficiency along the entire front ranges from good to excellent." (S CINCFE Telecon 5232, 6 Oct 51)

15. South Korea to receive Japanese ships: The recent announcement by SCAP that all ships registered in Korea on 9 August 1945 were to be returned by Japan to Korean ownership was greeted with considerable satisfaction in ROK government circles. (ROK estimates place the amount of shipping in this category at 33,000 tons.) In view of the fact that the ROK will continue to press for the return of all Japanese ships, regardless of registry, in Korean waters on that day, Ambassador Muccio feels that quick action on the part of SCAP and the Japanese in returning ships so as to present tangible evidence might "placate Korean sensitivity." (S Fusan 316, 5 Oct 51)

Comment: The return of shipping claimed by the Koreans has been a bone of contention in the ROK since the end of World War II. A complication may arise in relation to the agreed-upon return from the provision that ships will be turned over as and where they are. The Koreans feel that the Japanese will claim most ships in this classification have been sunk and are therefore unreturnable.

16. JAPAN. Socialists may support peace treaty: The Socialist party's Central Executive Committee has voted to reverse the Party's former policy by deciding to support the Japanese peace treaty in the coming Diet session. The Committee voted, however, to continue its opposition to the US-Japan Security Treaty. The decisions are still subject to approval by a party convention slated for 23 October. (R FBID Ticker, 5 Oct 51)

Comment: This is obviously an effort at a compromise which will avoid a split between the left and right wings of the party. The right wing, which has recently been strengthened by the addition of several important depurgees, for several months has favored a change in the party's peace treaty policy, but until now it has been unable to force such a change. Socialist opposition to the peace treaty is out of step with current public opinion.

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SECTION 3 (WESTERN)

1. GERMANY. Veterans' chief is criticized for impolitic statements: Ex-General Johannes Friessner, chairman of the Association of German Soldiers, a new veterans' organization, is now under fire for his remarks concerning war criminals, the 1944 plot against Hitler, and the German invasion of Poland. In regard to the attack on Hitler, he stated that he was opposed to political murder; on war crimes, he did not believe that members of the German armed forces had ever committed any; and he felt that the attack on Poland was justified since there was no other way to solve the problem of Danzig and the Polish Corridor. These remarks were not carried by the major newspapers, although secondary organs reported them along with strong criticism. The remarks also caused some agitation in labor and church circles, and at its 2 October session the Bonn Cabinet issued a statement criticizing Friessner's organization, defending participants in the plot against Hitler, and promising aid to their dependents. The Government again stressed its view that political activities are not the task of veterans' organizations. (C Bonn unnumbered, 29 Sep 51)

Comment: It seems unlikely that Friessner, who has been described by Germans as "politically stupid," will last long as head of his veterans' association. There is growing sentiment among veterans that they are not well represented by former generals.

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2. Official distribution of East German budget plans limited: [REDACTED]  
25X1C [REDACTED] East German budget plans for this year are not being printed and disseminated generally to the various government ministries. The alleged reason is that information concerning expenditures might leak out and be interpreted, presumably in anti-Communist propaganda, as funds earmarked for rearmament. Each ministry will receive only the section of the budget applicable to its function and must keep this section under lock and key. [REDACTED]  
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Comment: This restriction is probably part of a general effort to tighten security.

3. FRANCE. France may review German policy in light of East German unity proposals: US officials in Berlin are seriously concerned lest the East German "unity" campaign lead the French to reconsider their German policy. According to reports from the office of the US High Commissioner in Berlin, French officials in Berlin believe that the USSR is now ready to accept free elections under four-power control in order to achieve demilitarization of the whole of Germany. The East German press "is making a persistently strong play for French support of a demilitarized united Germany," and "most

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observers" in Berlin believe that the Germans would be strongly attracted by an opportunity for truly free elections "at the price of" demilitarization.

The concern of the US officials is heightened by reports that the French Foreign Office possesses "secret instructions," purportedly issued by the West German Chancellor's office, directing that Germans living in the Saar and Alsace-Lorraine be encouraged to look forward to a reunion of these areas with the Reich. The US officials suggest that these "instructions" may be another form of Communist deceptive efforts aimed at the French. (S Berlin 543, 5 Oct 51; R Berlin 544, 5 Oct 51)

Comment: While the French Government is not known to be reconsidering its German policy as a result of the East German "unity" proposals, French political circles have shown widespread interest in the possibility of a "new Soviet diplomatic initiative" which might be particularly directed toward France. The pro-Government press has reported opinions of "certain political personalities" that such an initiative is "plausible." The mounting defense burden is already forcing the French to reconsider many of their foreign policy commitments, and the increasing instability of the present regime weakens the capabilities of the Foreign Office for ignoring the still strong misgivings in France concerning German remilitarization.

4. France wants to increase imports from the Soviet bloc: Although the French Foreign Office denies that it is seeking another Economic Commission for Europe meeting on East-West trade, French officials in the past two weeks have been putting increasing emphasis on their country's need for more imports from the Soviet bloc.

A general France-USSR commercial treaty was signed in early September, and the two countries are now negotiating for its implementation. The Soviet Union particularly desires textiles and large quantities of copper wire. (S Paris 1985, 3 Oct 51)

Comment: At the August Economic Commission for Europe meeting on East-West trade, the French were anxious to explore all possibilities of trade with the USSR in non-critical items. They wanted to prevent the Soviets from charging France with the failure of the talks but they also had legitimate commercial motives. At the same meeting, the USSR showed an interest in obtaining from France steam boilers, lead and other metals, reinforcing rods, ships, and machinery. The French themselves are faced with a copper shortage.

When the US made inquiries about the French agreement in June to give the Poles ball bearings, French officials replied that they reserved the right to export limited quantities of critical items to the Orbit when necessary to obtain vital imports such as coal.

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5. AUSTRIA. US prepared to grant entry to Soviet correspondents: After some consideration of the possibility of extracting equal concessions from the Soviet Headquarters, US officials in Vienna decided to issue entry permits to three Soviet correspondents desiring to cover a meeting of the Austrian Peace Council in Salzburg. This decision followed an off-the-record meeting of the American press corps in Vienna where it was unanimously agreed that the Soviet visit to the US Zone should be authorized. American correspondents argued that even if no admittance of American press men to the Soviet Zone was granted in exchange, favorable action on Soviet applications would deprive Soviet propagandists of an issue, and would provide useful contrast to anticipated Soviet policy. (S Vienna 1216, 3 Oct 51)

Comment: US admission of Soviet correspondents to the US Zone is not believed likely to achieve a more liberal policy on the part of the Soviet authorities. US officials in Vienna, however, have been searching for some leverage which might encourage the Soviet Headquarters to improve its attitude toward US applications to transit the Soviet Zone to the British sector. Soviet refusals of such applications appear to be entirely whimsical, suggesting that Soviet actions may reflect bargaining or retaliatory motives, or both.

6. ITALY. Italian Communists strike new note in attack on Church: Italian Communist chief Togliatti, in recent speeches at Bologna and Milan, charged that the Church is largely responsible for the present situation in which the Government "dared to develop its reactionary policies in favor of the privileged classes." Prior to these speeches, Togliatti had tended rather to soft-pedal the Church issue, and he gave the impression that he did not wish to collide head-on with the Church. He has always pretended, however, to distinguish between the Church "hierarchy" and the mass of Roman Catholic believers who are "victims" of the "class" policy pursued by the Vatican. (C Rome 1508, 1 Oct 51; C Rome 1450, 25 Sep 51)

Comment: Togliatti's remarks are presumably in answer to the recent encyclical of Pope Pius branding Communism as "the infernal enemy." The Vatican has increasingly attempted to counter Communist charges of "class" policy by issuance of papal encyclicals stressing the need for social reform.

Although about 99 percent of the Italians are Roman Catholic, some 50 percent do not consistently practice their religion. Experts believe that anticlericalism is increasing in Italy.

7. UNITED KINGDOM. Latest poll shows Conservative margin reduced: According to the latest published Gallup survey, the Conservatives' margin of popular support over the Labor Party has declined from eleven to seven percent during a week. Of those who have decided how they will vote, the survey shows that

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50.5 percent will vote Conservative, 43.5 percent will vote Labor, 5.5 percent will vote Liberal, and 0.5 percent will support other parties. Further questioning of the 11.5 percent who were undecided did not materially affect these figures. Answers to subsidiary questions suggest that two factors currently working to Labor's advantage are a popular belief that prices will continue to rise regardless of the outcome of the elections and a greater confidence in Labor's ability to avoid war. (R London 1677, 5 Oct 51)

Comment: This trend, if continued, would soon upset the Conservatives' long-standing advantage reported by the Gallup poll, which proved very accurate in the last two general elections. Just the previous week, however, there had been a slight trend favoring the Conservatives, and this latest survey was taken before the publicity attendant upon the British evacuation of Abadan and before the beginning of the regular campaigning.

8. DENMARK. Government issues no-surrender orders: The Ministry of Defense has issued instructions to the armed forces that an enemy attack is to be regarded as a mobilization order, and that orders issued in the name of the King, the Government, or senior military authorities telling the men not to mobilize or not to offer resistance or to desist in mobilizing or fighting "must be regarded as false." The instruction commands the troops to continue fighting, however hopeless the situation appears, in order to permit other forces either in Denmark or elsewhere to organize; threats of reprisals are to be ignored. The Minister of Defense, in his radio broadcast announcing the issuance of the orders, stated, however, that the publication of the orders does not imply that the Government has adopted a more pessimistic view concerning the international situation. (FBIS, Copenhagen, Danish Home Service, 4 Oct 51)

Comment: This vigorous statement is long overdue and should have a salutary effect on Danish morale and will to resist. The Norwegian Government issued a similar directive in June 1949. The Defense Minister's emphasis that orders do not reflect any new anxiety on the part of the Danish Government indicates the sensitivity of Danish public opinion to alarmist statements.

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9. ARGENTINA. Army may ask Peron to resign: [REDACTED] Minister of the Army Lucero, representing a committee of high-ranking military leaders, asked Peron to resign on 24 September, but the issue was postponed because of the 28 September revolt. The committee was considering reopening the issue with Peron on 5 October, because they want to announce the candidacy of Colonel (retired) Domingo Mercante and ex-Foreign Minister Bramuglia on 11 October. Lucero wants the ouster to be effected constitutionally and without violence. [REDACTED] none of the armed forces can be counted on to defend Peron. [REDACTED]

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Comment: The extent to which the armed forces, and especially the army, which is the final arbiter, are prepared to press the ouster of Peron at this time is not known.

This report, if true, would indicate an advancement in timing of army plans which originally called for support for Peron through the elections, postponing a decision on the future course of action regarding him. There are reports that Mercante and the army will attempt a coup in the future, but in the past the army has attempted to avoid bloodshed.

Considerable maneuvering and political tension can be expected to continue until well after the elections. In the meantime Peron has increased his security measures.

10. EL SALVADOR. Defense Minister rumored stalling on US air mission while negotiating with Chile: The US Ambassador to El Salvador reports rumors from two important sources that the Salvadoran Minister of Defense is stalling on the renewal of the US military aviation mission and is at the same time negotiating with Chile for a similar mission. The Ambassador requests authorization to press for an immediate commitment from the Defense Minister. (C San Salvador 104, 4 Oct 51)

Comment: Defense Minister Bolanos has never been especially friendly toward the US, and last year he arranged for a Chilean mission to take over most of the instruction at the US-run Salvadoran War School. While the VIP treatment accorded Bolanos on his recent and only trip to the Canal Zone was reported as having "improved the Salvadoran military attitude toward the US," it is likely that the Minister is still displeased with the US air mission which he has long blamed for the continued inefficiency of the Salvadoran air force.

In view of the fact that the US Embassy in Chile reports no knowledge of Chilean-Salvadoran negotiations and expresses doubt that Chile could furnish such assistance, it is possible that Bolanos manufactured the rumors to provide himself with a better bargaining position vis-a-vis the US. In early September he told the US Ambassador that he wanted some changes in the text of the agreement in order to avoid "certain difficulties which arose during the commands of the last two chiefs of air mission and to obtain other technical military advantages." On the other hand, and in view of Salvador's increasing sense of "national dignity," it is possible that the US may have to accept the presence of a competing Chilean air mission of some kind, even though it might be technically far inferior to the US mission.

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SECTION 2 (EASTERN)

1. IRAN. British Government split on naval blockade of Iran: There are divergent views within the British Government over the wisdom and legality of a naval blockade of future Iranian oil shipments, according to the US Ambassador in London. (S, S/S London 1599, 2 Oct 51).

Comment: A blockade of Abadan would be an effective way of denying to Iran the benefits of oil nationalization. Lack of unanimity among the British on this subject, however, suggests that they will make no immediate attempt to use military force against Iran in connection with the oil issue.

2. INDIA/CHINA. Panikkar makes representations on behalf of US nationals in China: Indian Ambassador Panikkar on 2 October made representations on behalf of US nationals in Communist China to Chen Chia-kang, Director of the Asian Section of Peiping's Foreign Office. Chen in turn alleged that thousands of overseas Chinese were being detained in foreign countries, especially in Southeast Asia, but finally promised to investigate the cases on the Ambassador's list. The Indian Foreign Office, relaying the above conversation to the US Embassy in New Delhi, noted that Panikkar was the only mission chief in Peiping who had personally made representations for US nationals. (S, S/S New Delhi 1221, 3 Oct 51).

Comment: Chen Chia-kang is one of several Chinese Communist figures, assigned during and after World War II to liaison duties with American and other Western personnel, who acquired a reputation for being amiably disposed toward the US. There is no evidence, however, that he, a second-level functionary, is genuinely pro-Western. It is therefore doubtful that he either would or could do anything to improve the status of US nationals in Communist China.

3. BURMA/CHINA. Chinese UN delegate discusses withdrawal of Nationalist troops from Burma: During a conversation with the US representative in the UN, the Chinese Nationalist delegate indicated surprise at a report that the Burmese Government might allow Nationalist troops to withdraw from Burma rather than insist upon their disarmament and internment. The Nationalist official believed that, if this report is true, his government might be willing to undertake the removal of the troops in question from Burma. (S, S/S New York 417, 4 Oct 51).

Comment: All previous information has indicated that the Burmese are adamant in their refusal to agree to any settlement short of surrender and internment. It is possible, however, that in the interest of internal security, the Burmese are now willing to risk antagonizing the Chinese Communists by permitting the Nationalists to leave Burma.

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4. JAPAN/CHINA. British diplomat suggests postponement of Japanese recognition of China: Sir Esler Dening, who has been designated as Britain's first post-war Ambassador to Japan, believes that it would be to Japan's best interests to refuse to establish diplomatic relations with either the Taipei or Peiping regimes "until the situation clarifies." In an informal conversation with the US Political Adviser in Tokyo, the British diplomat expressed the opinion that a Japanese "commitment" to Taipei undoubtedly would cause later embarrassment, "especially since the Chinese Nationalists are incapable of reestablishing their hold on the Chinese mainland."

The US Political Adviser adds that Dening is proposing to call on Prime Minister Yoshida within the next few days, and that it is safe to assume he will advance this idea in an endeavor to influence the Japanese course of action on Chinese recognition. (S, S/S Tokyo 684, 4 Oct 51).

Comment: While the Japanese Government has given assurance that it will not deal diplomatically with the Communist regime, there are indications that it would be amenable to any suggestion that Japan's recognition of the Nationalists likewise be postponed. This attitude is based both on a desire to maintain a limited, non-strategic trade with Communist China, and on a desire to avoid this controversial issue. Japan will undoubtedly continue, as it has in the past, to support the Nationalists in various international organizations.

5. JAPAN. End-use checks to be Japanese responsibility: The Departments of State and Army are proposing to transfer responsibility to the Japanese Government for end-use checks on certain less strategic List II and List II-B commodities, which on the basis of past experience have not presented problems of diversion. These end-use checks would be conducted by the Japanese overseas agencies whenever feasible; otherwise, a request would be submitted via US diplomatic channels. The purpose of the change is to enable SCAP to instruct the Japanese and supervise their initial operations in preparation for the termination of the Occupation. (C, S/S Tokyo 544, 4 Oct 51).

Comment: Japan's foreign trade officials are well aware of the necessity to maintain strict compliance with Western export controls, especially in view of Japan's great dependence upon the West for vital imports. Some, though not extensive, leakage can be expected through smuggling and bribery of customs officials.

6. Press leaks on security treaty attributed to Liberal Party: Several recent Japanese press reports concerning the alleged administrative details of the US-Japan security treaty may well be a calculated attempt of the Japanese Government to make known its views on the provisions in the hope of influencing discussions in Washington, according to the US Political

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Adviser in Tokyo. These leaks, although attributed to the Foreign Office, may be emanating from Liberal Party sources. Since the reports play up Japan's role, the American official believes that the Liberals may be attempting to foster the impression that Japan is an equal partner, and thus minimize apprehension that Japan is giving the US a blank check. (C, S/S Tokyo 764, 4 Oct 51).

Comment: The Government's inability to release officially the details of the security pact is causing considerable criticism, together with expressions of concern lest Japan has agreed to extend extra-territorial rights to the US. Although many of the general principles have been agreed on by Japan and the US, final details are now undergoing inter-departmental discussions in Washington.

### SECTION 3 (WESTERN)

7. AUSTRIA. Government official says Austrian public blames US in Soviet-arrest cases: A high-ranking Austrian official, speaking in the presence of the Austrian Cabinet, has informed Minister Donnelly that there is widespread public dissatisfaction on the subject of Soviet arrests of Austrians whose anti-Soviet activities are popularly believed to be associated with US operations in Austria. State Secretary Graf of the Ministry of Interior referred in particular to the arrest of Austrians charged with distributing anti-Soviet propaganda, and to a recent case in which US authorities granted protective custody to persons suspected of anti-Soviet activities. According to Graf, the Austrian public believes US operations are unnecessarily exposing these people.

Minister Donnelly denied any knowledge of these activities and assured the Austrian complainants that these operations did not originate with any US agency in Austria. The US Legation, however, expresses concern that, when anti-Soviet activities go wrong, US officials in Vienna, whether responsible for such activities or not, are forced to take protective measures to avoid public discredit and to minimize serious difficulties. (TS, S/S Vienna 1239, 4 Oct 51).

Comment: The Communist press has recently given wide play to alleged "revelations" that Austrians arrested for anti-Soviet actions received instructions from US/CIC (see OCI Daily Digest, 4 Sep 51). The official Austrian protest is an apparent reply to US complaints that the Austrian Ministry of Justice, under pressure from Soviet authorities, agreed to the transfer of an Austrian prisoner from a jail in the US sector of Vienna to a Soviet Zone prison. The Austrian Government, alleging that its country has become an arena for international espionage, has frequently urged Austrian citizens to disassociate themselves from such activities.

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8. UNITED KINGDOM. British name Gaitskell to NATO Temporary Council Committee: Chancellor of the Exchequer Gaitskell will be the official UK member of the NATO Temporary Council Committee; but activities in connection with the impending election will require him to leave a great deal of the work to Sir Edwin Plowden, chief planning officer of the Treasury. These two will be supported by three experts, one economic, one military, and one political, and will be further supported by an inter-ministerial group under Treasury chairmanship. W. Averell Harriman, the US member of the Committee, considers the British personnel arrangements excellent. (S, S/S London DEPTO 397, 3 Oct; S, S/S TODEP 212 to London, 4 Oct 51).

Comment: The Temporary Council Committee was established by the North Atlantic Council at Ottawa to prepare a coordinated analysis of NATO defense plans with the special aim of reconciling the requirements of external security with the politico-economic capabilities of the member countries. The Committee will report by 1 December to the next Council meeting to be held in Rome. Commonly referred to as the "apostles," its members are individuals appointed by the 12 member governments, of which three (Harriman, Gaitskell, and Monnet for France -- the "wise men") form an Executive Bureau to spearhead the work.

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